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October 5, 2007

Eric A. Cioppa, Acting Superintendent  
c/o Vanessa Leon  
Docket No. INS-07-1000  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333-0034

*Re: Anthem BCBS 2008 HealthChoice Individual Rate Filing*  
Filing coversheet

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach  
DATE: October 5, 2007  
DOCUMENT TITLE: Anthem BCBS Response to First Information Requests of  
the Advocacy Panel  
DOCUMENT TYPE: Response to Information Requests  
CONFIDENTIAL: **No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire  
Christina M. Moylan, Esquire  
Judith M. Shaw, Deputy Superintendent  
James Bowie, Esquire

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In re: ANTHEM BLUE CROSS AND	)	
BLUE SHIELD 2008 INDIVIDUAL	)	APPLICANT’S RESPONSE TO FIRST
RATE FILING FOR	)	INFORMATION REQUEST OF THE
HEALTHCHOICE, HEALTHCHOICE	)	ADVOCACY PANEL
STANDARD AND BASIC	)	
PRODUCTS	)	
	)	
	)	
	)	
Docket No. INS-07-1000	)	<b>October 5, 2007</b>
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STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION  
BUREAU OF INSURANCE

IN RE:	)	
	)	
ANTHEM BLUE CROSS AND BLUE	)	
SHIELD 2008 INDIVIDUAL RATE	)	APPLICANTS' RESPONSE TO
FILING FOR HEALTHCHOICE,	)	FIRST INFORMATION REQUEST
HEALTHCHOICE STANDARD AND	)	OF THE ADVOCACY PANEL
BASIC PRODUCTS	)	
	)	
Docket No. INS-07-1000	)	October 5, 2007

Applicant Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield ("Anthem BCBS") hereby responds to the First Information Request of the Superintendent dated September 28, 2007 as follows:

1. According to filing Exhibit IX, HealthChoice enrollment for 2004 through 2007 is:

<u>Year</u>	<u>Member Months</u>	
2004	413,723	(actual)
2005	403,396	(actual)
2006	349,571	(actual)
2007	279,241	(projected)
2008	235,903	(projected)

The decline in member months from 2004 to 2008 is 177,820, a net 14,818 members. For each year from 2004 to 2008, please identify as accurately as possible the number of members who migrated to each alternative in the market and the number of members who went uninsured. By way of illustration, alternatives in the market include, but are not limited to, DirigoChoice, Chamber Blue Plan, small group coverage, and employer-sponsored coverage.

**Response:** Anthem BCBS does not track subscribers when they terminate from HealthChoice and accordingly, does not have the requested data.

2. Considering the information discussed in the immediately preceding inquiry:

- (a) Identify the migration of sole proprietors anticipated as the result of Anthem's offering of Employee Elect;

- (b) Explain how the projection identified in this inquiry's sub-part (a) above was calculated;
- (c) State whether the projection identified in this inquiry's sub-part (a) above was factored into enrollment projections set forth in filing Exhibit IX.
- (d) If the projection identified in this inquiry's sub-part (a) above was not factored into enrollment projections set forth in filing Exhibit IX, please provide an amended Exhibit IX that includes such factoring.

**Response:**

- (a) While Employee Elect will be offered to sole proprietors, we expect the bulk of the membership in Employee Elect will come from small groups of size 2 or more. At the time of the development of the HealthChoice filing the planning of the implementation of the Employee Elect program was in its infancy. Therefore any migration of self employed subscribers out of HealthChoice and into group products was not considered. That said, however, we do not expect a material migration of members from HealthChoice to Employee Elect. Self employed Maine residents have had the ability to join DirigoChoice for nearly three years now and many have. Self employed persons who are chamber members also have the option of obtaining coverage through ChamberBlue options. It is reasonable to conclude that the majority of the self employed who can afford the cost of higher benefits have already made the purchasing decision to do so through buying a DirigoChoice product, or a ChamberBlue option.
- (b) No such projection was made.
- (c) No such projection was made.
- (d) Please see the response to sub-part (a).

3. For the period from January 1, 2002 to the present, please provide:

- (a) Claim trend historic data in the same format as filing Exhibit VI;
- (b) Lag triangles with monthly enrollment levels.

**Response:** The requested information is included in the accompanying Excel spreadsheet.

4. For each calendar year from 2003 and year-to-date, please provide total dollar amounts for pharmacy claims and rebates.

<b>Response:</b>	<u>Year</u>	<u>Paid Pharmacy Claims</u>	<u>Rebates</u>
	2003	\$4,778,927	\$209,336
	2004	\$5,909,285	\$338,711
	2005	\$6,916,482	\$716,010
	2006	\$6,999,212	\$695,406

Due to the lag in payment patterns, we do not yet have meaningful rebate data for 2007.

5. For each calendar year from 2003 and year-to-date, please provide total dollar amounts for:

- (a) Rebates for generic prescriptions;
- (b) Rebates for proprietary prescriptions.

<b>Response:</b>	<u>Year</u>	<u>(a) Generic</u>	<u>(b) Other</u>
	2003	\$0	\$209,336
	2004	\$0	\$338,711
	2005	\$0	\$716,010
	2006	\$0	\$695,406

Anthem BCBS does not receive rebates for generic drugs.

6. For the period from January 1, 2003 to the present, please provide pharmacy trend data for:

- (a) Generic prescriptions;
- (b) Proprietary prescriptions.

**Response:** The requested information is included in the accompanying Excel spreadsheet.

7. The attached Excel exhibit was derived from data in the filing, *viz.*, enrollment by month in Exhibit V and sales projections in Exhibit XI. This exhibit assumes that month-to-month changes in enrollment are due to new sales increasing enrollment and terminations decreasing enrollment. Historic termination numbers are derived as a balancing item and prospective termination numbers are set so that member months for 2007 and 2008 are consistent with filing Exhibit IX. Sales for January 2006 are estimated, because that information was not shown in filing Exhibit XI.

The attachment shows that, relative to 2007, sales will be increasing in 2008 and termination rates will be declining in 2008. Please explain how these facts are reconciled with the request for an average rate increase of almost 19%, referencing specific data. If the attached Excel exhibit is incorrect, please explain why.

**Response:** First, your exhibit appears to mix subscribers and members so the results that you have tabulated may not be consistent. That said, in response to your request, given the decreasing enrollment it is reasonable to anticipate termination rates declining as the total population decreases and the pool experiences an increasing distribution of those in need of health insurance due to existing health conditions. Moreover, the recent announcement by the Dirigo Health Agency that enrollment in Dirigochoice will be suspended into 2008 further supports the suggestion that sales for HealthChoice will increase in 2008.

8. Commissions have ranged from \$1.27 to \$1.51 PCPM from 2002 to 2007, according to filing Exhibit IX. Why is it reasonable to assume that commissions will jump to \$1.77 PCPM in 2008? Include in the answer to this question consideration of sales and enrollment history since 2005.

**Response:** Commission payments have increased both in term and in amount over the past few years and the payment is to increase in 2008. Additionally, the percent of contracts through broker channels has increased over the past few years and new sales as a percentage of existing subscribers is projected to increase in 2008 leaving a smaller base across which to

spread commission costs. Given these factors it is reasonable to assume that commissions will increase in 2008.

For example, in 2005 commissions were paid at \$14.00 per month and in 2008 the commission payment will be \$15.75 per month and payable for up to twenty four months in each year. In 2005 23% of new contracts were through broker channels while in 2008 that percentage is expected to be 30%.

9. Has there been any material change in commission practices, from January 1, 2002 to the present? If the answer to that question is affirmative, please explain each change and the reasons for it.

**Response:** General commission practices have not changed dramatically since 2002. The term of payments for commissions has changed (now twenty four months, twelve months in a prior period) and the amount has changed as well but these are not considered to be material changes.

10. Please provide HealthChoice's projected administrative expenses for each of the following categories:

- (a) Direct expenses for Anthem of Maine;
- (b) Incoming allocated expenses for functions supporting Maine operations;
- (c) Outgoing allocated expenses for functions supporting operations in other states that are performed by Maine personnel;
- (d) Charges to Maine operations for functions of other Anthem subsidiaries.

For items (b) through (d), please identify the affected functions, where in the corporate structure those functions are performed, and in what regulatory jurisdiction those functions are performed.

**Response:** (a) WellPoint is structured so that its administrative expenses are captured in cost centers and allocated to the lines of business supported by each specific cost center. Cost centers represent administrative departments that are aligned based on management responsibility for the activity and the functions performed. For example, a cost center can

provide support to a single state, a geographical region, a specific claims system, or it can support the entire enterprise. Administrative functions performed by cost centers include claims, customer service, enrollment, sales, marketing, actuarial, health care management, finance, legal, human resources, etc. There are no specific cost centers that are dedicated solely to the Maine business segment. Hence, HealthChoice does not have direct expenses as all administrative services are allocated to them.

(b) The incoming allocated expenses for functions supporting HealthChoice for 2007 is forecasted to be \$5.9 million. The following analysis breaks down the incoming allocated expenses by administrative functions (e.g. marketing, actuarial, finance, etc):

<b>Administrative Functions</b>	<b>Incoming Allocated Expenses</b>
Actuarial Function	\$106,481
Admin & Facilities Function	\$146,058
Claims Function	\$648,041
Customer Service Function	\$445,712
Decision Support Function	\$82,097
Enrollment & Billing Function	\$716,866
Finance Function	\$186,932
General Management Function	\$299,976
Human Resources Function	\$76,137
Legal Function	\$51,673
Marketing Function	\$541,805
Medical Management Function	\$661,777
MIS - IT Function	\$1,236,364
MIS - Non IT Function	\$2,415
Other Function	\$5,716
Provider Network Function	\$169,544
Sales Function	\$336,316
Underwriting Function	\$175,018
<b>Grand Total</b>	<b>\$5,888,930</b>

The remainder of the question asks for the jurisdiction in which the above-identified costs are performed. While WellPoint's allocation databases can report based on separate legal entities (*e.g.*, Anthem BCBS in the aggregate), HealthChoice is not itself a separate legal entity. As such, determining the jurisdiction in which all services related to the HealthChoice line are performed would be an extensive process that would have to be undertaken manually.



(c) There are no dedicated administrative expenses for HealthChoice that are allocated to other states. Administrative expenses are allocated to the HealthChoice line by cost center, as indicated in sub-part (a).

(d) Since HealthChoice does not have dedicated cost centers, all administrative services allocated to HealthChoice are from other WellPoint subsidiaries.

11. Anthem's response to inquiry 15 of the First Information Request of the Attorney General stated that changes in enrollment distribution [across the various benefit options] are "the primary contributor" to the difference between the filing's annual claim trend and the average rate increase requested. Please set forth as specifically as possible the referenced changes in enrollment distribution across benefit options.

**Response:** Please see both the response to question seven of the Second Information Request of the Attorney General as well as the Excel spreadsheet accompanying this response which details historical and projected enrollment by benefit option.

12. Data in Exhibit XI implies that commissions are paid for 24 months for all contracts from brokers and that the amount paid is adjusted upwards slightly each year. Please explain confirm that this is the correct interpretation of Anthem's practice. If this is not the present practice, explain what the practice is.

**Response:** The term of payment is currently twenty four months for new subscribers through brokers. The amount of the monthly commission payment for new subscriber sales is reevaluated on an annual basis.

13. Page 14 of the standard NAIC annual statements filed by health insurers reports in column 3 general administrative expenses and in column 5 claim adjustment expenses. For each of the expense categories listed below for Anthem Health Plans of Maine, please explain the basis for the difference from year to year and the methodology for determining the allocation of the total expense between general administrative expense and claim adjustment expense.

(a) Legal fees and expenses

General administrative expenses for:

2004 - \$ 185,025

2005 - \$ 1,466,132     Percent increase: 692%

Claim adjustment expenses for:

2004 - \$ 215,914

2005 - \$ 1,466,132     Percent increase: 579%

(b)     Auditing, actuarial and other consulting fees

General administrative expenses for:

2004 - \$ 2,925,769

2005 - \$ 1,822,210     Percent decrease: -37%

2006 - \$ 3,688,675     Percent increase: 102%

Claim adjustment expenses for:

2004 - \$ 8,977,275

2005 - \$ 6,703,483     Percent decrease: -25%

2006 - \$11,091,407     Percent increase: 65%

(c)     Outsourced services including EDP

General administrative expenses for:

2004 - \$ 161,514

2005 - \$ 668,233     Percent increase: 314%

2006 - \$ 239,638     Percent decrease: -64%

Claim adjustment expenses for:

2004 - \$ 334,012

2005 - \$ 1,249,658     Percent increase: 274%

2006 - \$ 3,520,192     Percent increase: 182%

(d)     Group Service and Administrative fees

General administrative expenses for:

2004 - \$ 0

2005 - \$ 0

2006 - \$ 2,380,461

Claim adjustment expenses for:

2004 - \$13,704,701

2005 - \$10,912,696     Percent decrease: - 20%

2006 - \$ 8,185,491     Percent decrease: - 25%

(e) Regulatory Authority License and Fees

General administrative expenses for:

2004 - \$	72,540	
2005 - \$	20,989	Percent decrease: -71%
2006 - \$	95,102	Percent increase: 353%

Claim adjustment expenses for:

2004 - \$	72,540	
2005 - \$	20,989	Percent decrease: -71%
2006 - \$	95,102	Percent increase: 353%

**Response:** After further discussions with the Advocacy Panel, Anthem BCBS will provide the administrative costs by administrative function allocated to Anthem BCBS which comprise the \$20.91 PMPM administrative expense charge embedded in the proposed rates. In addition, Anthem BCBS will provide a comparison of those items to the approved administrative expenses for 2006, with an explanation of any material changes. Attached is a spreadsheet reflecting that data.

At present, Anthem BCBS and the Advocacy Panel agree that the Superintendent need not rule on Anthem BCBS's objection to this request. Counsel will advise the Superintendent if a ruling becomes necessary.

DATED: October 5, 2007

/s/ Christopher T. Roach  
Christopher T. Roach, Esq.

PIERCE ATWOOD LLP  
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Portland, Maine 04101  
*Attorney for Applicant*

## **CERTIFICATE OF SERVICE**

The undersigned hereby certifies that on October 5, 2007, a copy of the Non-Confidential Version of Applicant's Response to the First Information Request of the Advocacy Panel was served in the manner indicated on each of the persons listed below:

Thomas C. Sturtevant, Esq. (via electronic mail and U.S. Mail)  
State of Maine  
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DATED October 5, 2007

/s/ Christopher T. Roach  
Christopher T. Roach, Esq.

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